

INDEPENDENT  
ENERGY  
PRODUCERS

<b>DOCKET</b>
00-REN-1194
DATE JAN 24 2006
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January 24, 2006

California Energy Commission  
Attn: Docket Office  
1516 Ninth Street, MS-4  
Sacramento, CA 95814-5504

RE: Independent Energy Producers Association Comments on the  
COMMITTEE DRAFT 2006 Renewable Investment Plan (January  
2006)

***Docket Number 00-REN-1194***

Dear Renewables Committee:

The Independent Energy Producers Association (IEP) appreciates the opportunity to comment on the **Committee Draft Report: 2006 Renewable Energy Investment Plan** (dated January 2006). After receiving comments to the 2006 Renewable Energy Investment Plan - Staff Draft (November 2005), the Renewables Committee prepared this Draft Report.

The Committee Draft Report fails to address the key concerns presented by IEP (and many other parties) regarding the Staff Draft. The *key issue* is how to allocate the Public Goods Charge (PGC) funding to maximize state renewable goals, particularly attainment of the California RPS. Unfortunately, the Committee Draft would implement the same reallocations recommended in the Staff Draft. Specifically, the Committee Draft would to the following:

1. Decrease the funding for New Renewable Facilities from 51.5% to 38%
2. Increase the funding for Emerging Renewables from 26.5% to 48%
3. Increase funding for Consumer Education from 1% to 4%
4. Decrease funding for Customer Credit from 10% to 0%
5. Decrease Funding for Existing Renewables from 20% to 10%

On the fundamental issue of PGC fund allocation, the Committee's Draft is the same as the Staff's Draft. Accordingly, IEP reiterates its comments on the Staff Draft for the Committee's consideration and attaches them as reference.<sup>1</sup>

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<sup>1</sup> IEP opposes reducing funding for the New Renewables and Existing Renewables at this time. IEP supports reducing funding for the customer credit as proposed. IEP supports the reallocation for the consumer education account as proposed. Once these steps are taken, IEP would not oppose increasing funding for the Emerging Renewables account a concomitant amount (7%).

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The comments and concerns expressed in November 2005 regarding the Staff Draft continue to apply today. In fact, the only things that have changed are the following which we now know:

***The IOUs are failing to achieve their annual, incremental RPS procurement targets. [See "Renewables Portfolio Standard Procurement Verification Report, Committee Draft Report," January 2006]***

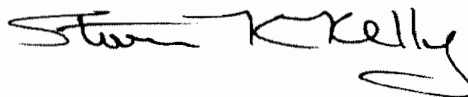
***Many, if not the majority, of RPS contracts entered into by the IOUs are unlikely to deliver real energy in time to meet the RPS standard [see "Building a 'Margin of Safety' Into Renewable Energy Procurements," prepared for the CEC by Kema, Inc., (January 2006); see, as an example, SCE "Supplement To Its Renewable Procurement Plan 2005-2014, December 2005.]***

If the state is to have a chance of meeting the RPS objectives, then the evidence suggests that the IOUs must consider additional, different projects, perhaps some projects that may cost more. We don't know for sure. That's the point of IEP's prior comments in which we urged caution when considering reallocating the PGC funding:

- Recent trends are poor indicators of future needs [Note, the reference to recent trends was in reference to the somewhat optimistic outlook for RPS procurements contained in the Staff Draft. As noted above, IEP's caution then now appears to be supported by some recent empirical analysis];
- Reallocation Proposals are more significant than suggested in the staff presentation (and now in the committee's presentation);
- Reallocation proposals undermine attainment of RPS goals; and
- The current approach to reallocation (i.e. the current allocation) should not be altered.

IEP believes that the commission shares its concern that the "rhetoric of procurement" in California fails to match reality. In the context of the California RPS, that is certainly the case. We urge you to not alter the existing allocations for the New Renewables Account and the Existing Renewables Account until more is known about when, where and how the RPS kWh needed to achieve RPS compliance is actually being delivered.

Respectively,

A handwritten signature in black ink, appearing to read "Steven Kelly", with a stylized flourish at the end.

Steven Kelly  
Policy Director

January 24, 2006

**Attachment A**

**IEP Comments on the  
Committee Workshop re: 2006 Renewable Investment Plan  
(November 14, 2005)**

INDEPENDENT  
ENERGY  
PRODUCERS

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November 21, 2005

California Energy Commission  
Attn: Docket Office  
1516 Ninth Street, MS-4  
Sacramento, CA 95814-5504

RE: Independent Energy Producers Association Comments on the  
COMMITTEE WORKSHOP RE: 2006 Renewable Investment Plan  
(November 14, 2005)  
*Docket Number 00-REN-1194*

Dear Integrated Energy Policy Report Committee:

The Independent Energy Producers Association (IEP) appreciates the opportunity to comment on the **2006 Renewable Energy Investment Plan – Staff Draft** (Draft 2006 Investment Plan). The Draft 2006 Investment Plan was presented at the Committee Workshop on November 14, 2005.

## **I. Overview**

The Draft 2006 Investment Plan provides two fundamental recommendations. First, the Draft 2006 Investment Plan recommends that the Committee base its future plan on recent, historical trends. Second, based on this trend analysis, the staff proposes a significant change in the allocation of future Public Goods Charge (PGC) funds compared to the allocation that has occurred historically. The effect of these recommendations, if accepted by the Committee, would be to reallocate a significant portion of PGC funding currently set-aside for “new” renewable resources to the account for “emerging” technologies.

The assumption that the recent past portends what is likely to occur in the future is misplaced. As a result, the proposal by staff to reallocate PGC funds at this time is unwarranted and should not be accepted.

## **II. Comments on Recommendations in Draft 2006 Investment Plan**

### **A. Recent Trends Are Poor Indicators of Future Needs**

The proposal to reallocate funds from the “new” and/or “existing” account to the “emerging” account primarily is based on the assumption that past trends in program allocations provide good signals as to what will incur in the future. For example, the Draft 2006 Investment Plan states, “After weighing the public information on contracts signed to date without the need for supplemental energy payments and the high cost of natural gas, we recommend reducing the amount set aside for above-market Renewable Portfolio Standard [i.e. the “new account]...” (Draft 2006 Renewable Investment Plan, ES-3). IEP believes this perspective is unwarranted at this time.

First, the track record of recent renewable RPS Requests for Offers (RFOs) provides poor intelligence as to what will occur in the future. As noted in the report [Report Table 4 (p. 20)], the RPS RFOs conducted to date are characterized by the following:

- Solar thermal (i.e. dish stirling) represents approximately 50% of the RPS RFO contracted MWs
- Wind represents about 33-44% (depending on the “low” and “high” case scenarios)
- The two technologies that historically have provided the bulk of the renewable energy in California, i.e. geothermal and biomass, represent only 150-255 MWs or approximately 8 percent of the total MWs contracted.

*If this trend of RPS RFO results were to continue as presumed by the staff, then California might well be in the following situation:*

- Fully 50% of the expected energy needed to ensure RPS compliance would be derived from a technology (solar thermal dish stirling) that has not been proven commercially feasible in the United States; and,
- Compliance with the California RPS by 2010 will be highly dependent on intermittent wind resources with a capacity factor of 30-40%, presuming that solar thermal technology is not able to achieve its deliverability as planned.

While the details of the RPS contracts are not transparent to the public (nor, apparently, the Commissioners), it is highly questionable that the state can achieve its RPS goals (e.g. 20% by 2010 or 33% by 2020) if this pattern of procurement is maintained in the future. Something is likely to change, and the change that is most likely to occur is one that has the load-serving entities contracting with more costly resources. Unlike the staff’s trend analysis, this trend analysis suggests a continuing need for ample PGC funds in the future.

Second, IEP believes that past RPS RFOs have taken the “low hanging fruit.” Acquiring renewable energy, even in the same proportions as has occurred to date, likely will result in the future in more expensive resources selected from the resource mix due

to technology type/needs, geographic location, etc. This too will apply upward pressure on limited SEP funding.

Third, natural gas price prices today may be poor measures of future natural gas prices. Already, some downward pressure is occurring in the marketplace. If sustained, then the Market Price Referent (MPR) would be expected to lower, and this will have concomitant upward pressure on SEP funds all things being equal. Reliance on the CEC gas price forecast is useful, but not as the rationale for shifting funds from an account where it may be needed (e.g. the “new” account) to another account that, by definition, will result in fewer delivered MWs to the grid (e.g. the emerging account).

**B. Reallocation Proposals Are More Significant Than Suggested In the Staff’s Presentation**

The staff proposal suggests that the changes proposed are relatively modest in terms of percentage (%) adjustments from funding levels today. IEP does not agree with the conclusion drawn by staff. The staff analysis fails to consider the relative shift of funding within each category.

*The staff proposal to shift funding from the “new” account to the “emerging” account actually results in a reduction of funding for the “new” account by fully 26% (not 13.5% as suggested in Table ES-1).*

*The staff proposal to increase funding for the “emerging account” results in an increase in funding for the “emerging” account by 174% (not 30.5% as suggested in Table ES-1).*

Table A below illustrates the effects of the proposed changes. In Table A, columns 1-4 are based on Table ES-1 in the Draft 2006 Investment Plan whereas column 5 is calculated by IEP. Column A the relative impact of the proposed funding shifts within each category.

**Table A**  
**Impact of Proposed Re-Allocations**

	<b>SB 1038 2002-2007 Reallocation of Customer Credit</b>	<b>Proposed 2007-2012</b>	<b>Change from SB 1038 (% of today)</b>	<b>IEP COMPARISON: % Change \$s from SB 1038 [</b>
	<i>[A]</i>	<i>[B]</i>	<i>[B-A]</i>	<i>[(B-A)/A]</i>
<b>New Renewables</b>	51.5%	38%	-13.5%	<b>-26%</b>
<b>Emerging Renewables</b>	17.5%	48%	+30.5%	<b>+174%</b>
<b>Consumer Information</b>	1%	4%	+3%	<b>+300%</b>
<b>Customer Credit</b>	10%	0%	-10%	
<b>Existing Renewables</b>	20%	10%	-10%	<b>-50%</b>

The calculations presented in Column 5 reveal that the relative impact of the proposed changes are quite significant for the technologies impacted.

### **C. Reallocation Proposals Undermine Attainment of RPS Goals**

The staff proposal results in a shift of approximately \$66 million annually from the “new” account to the “emerging” account. This potentially has a significant impact on the probability of meeting the 20% by 2010 RPS goal due to the fact that the costs for delivered energy from an emerging technology (such as solar PV) are significantly higher than the costs for energy delivered from either the “new” or “existing” account.

Table 2, “Cost-Effectiveness Assessment of Renewable Investment,” provides a breakdown of the cost per MW associated achieved to date by the various renewables accounts. The inputs to the calculations presented in the Table are derived primarily from page 7 of the Draft 2006 Investment Plan

**Table 2**  
**Cost-Effectiveness Assessment**  
**Of**  
**Renewable Investment**

	<b>Existing Program</b>	<b>New Program</b>	<b>Emerging Program</b>
Renewable MWs Supported	4,400 MWs	1,265 MWs	87 MWs
Cost of Support	\$209 million	\$189 million	\$210 million
<b>Cost Per MW Supported</b>	\$47,500/MW	\$149,407/MW	\$2,413,793/MW

Given that the “supported” cost on a MW basis for the emerging technologies is at least 16 times higher than that for the “new” account, the proposed funding shift should be viewed as creating further barriers to attainment of the state’s RPS goals. The only way to achieve this goal is to ensure that sufficient funding is available for new (and existing) projects to sustain and significantly expand the production of energy from these renewable projects.

**D. Current Approach To Reallocation Should Not Be Altered**

Historically, the Commission has employed the flexibility granted it by the legislature in a prudent and efficient manner. Specifically, once sufficient empirical evidence exists, the Commission considers and as appropriate reallocates funds to their greatest purpose. IEP does not believe that the empirical evidence exists today to warrant designing a 2006 Investment Plan based on the reallocations proposed by staff.

We recommend retaining the existing allocations until additional, empirical evidence exists that the proposed reallocations will not undermine attainment of the RPS goals of 20% by 2010 (or, alternatively 33% by 2020). To do otherwise will be to make California’s renewable/RPS commitment a hollow policy.

**E. Other Comments**

As a general matter, IEP finds the existing California RPS too complex. This complexity results in needless delay in RPS procurement. The staff’s proposal to move to a reverse auction has merit, but that change should be considered in the context of a broader review of the California RPS with an objective of achieving greater simplification and transparency.

We are particularly concerned that the lack of transparency in the implementation of the California RPS may make it difficult for the Commission to timely and effectively

award SEP payments to winning bidders. This outcome must be avoided and the reverse auction in particular may help in that regard.

## **V. Conclusion**

IEP appreciates the opportunity to provide these comments. We look forward to working with the Committee and staff to develop a useful 2006 Renewable Investment Plan to guide California energy policy into the future.

Respectfully submitted

Steven Kelly  
Policy Director

November 21, 2005